MODERN INSURANCE AND ITS POSSIBILITIES.

BY RICHARD A. McCURDY, PRESIDENT OF THE MUTUAL LIFE INSURANCE CO. OF NEW YORK; JACOB L. GREENE, PRESIDENT OF THE CONNECTICUT MUTUAL LIFE INSURANCE CO. OF HARTFORD; SHEPPARD HOMANS, PRESIDENT OF THE PROVIDENT SAVINGS LIFE ASSURANCE CO. OF NEW YORK, AND CLARENCE H. KELSEY, PRESIDENT OF THE TITLE GUARANTEE AND TRUST CO. OF NEW YORK.

MR. McCURDY:

The possibilities of insurance are determined like those of any other business, by ascertaining how far it can be made to pay.

The particular form of insurance to be considered in the following remarks is Life Insurance, with incidental reference to other branches.

Any form of insurance, whether it be purely mutual, proprietary or fraternal, if not conducted on a paying basis, must necessarily fail. The purely mutual company will drop asunder; stockholders in a proprietary company will wind up the concern, or it will go into the hands of a receiver by process of law; enthusiasts who sustain Clergy Mutual Leagues and Employees' Benefit Associations will grow weary in well-doing and try to reinsure their risks or leave them to their fate. Assessment societies come to grief when the assessments are levied too often, and the shores of the ocean of Indemnity are strewn with innumerable wrecks of craft, fantastically named and equipped, which have met the common fate of all non-paying enterprises in a commercial age.

These are primary facts; and yet they involve an apparent paradox.

For there is, theoretically, no money made by insurance. Insurance is technically held to be all loss. Companies or associations which carry on the business are only the distributors of loss. A voluntary loss, submitted to at once by the insured, removes

the danger of a far greater loss which may otherwise happen at any time. But as the prime purpose of the aggregate premiums is to pay losses, so the single premium paid in each case by the insured is primarily a loss to the insured. The ship that goes to the bottom, the warehouse that is burned, or the life that perishes, takes out of existence just so much actual or potential capital, and the insurance money that replaces it in whole or in part is only the product of individual contributions of smaller sums, which have been sacrificed in advance, in prevision of the dreaded catastrophe or of the inevitable doom.

Where, then, is the point of contact between the first and second propositions ?

It is here : That while pure insurance is but a distribution of loss, the machinery of distribution must be so constructed as to impose the minimum of self-sacrifice upon the insured and to secure for his money the maximum of productiveness. These results must be attained under conditions of the business established by long and wide experience. Experience is used in its technical sense, meaning applied statistics. Productiveness, for present purposes, means applied intelligence.

How far have the possibilities of insurance been already tested ?

Francis, in his "Annals of Life Insurance," enumerates, in addition to the ordinary forms of life, marine, and fire insurance, and annuities, among others, the following schemes : to insure marriage portions ; for preventing and suppressing thieves and robbers ; for insuring seamen's wages ; for the insurance of debts ; to insure masters and mistresses against losses by servants, thefts, etc.; for insuring and increasing children's fortunes ; insurance from house-breakers ; insurance from highwaymen ; insurance from lying ; rum insurance and cattle insurance.

The marauding barons of the middle ages who, after lives of rapine, built churches and left money for masses, may be considered to have made elementary attempts to insure their future felicity. Whether the investment paid has never been ascertained.

It is recorded, also, that pilgrims to the Holy Land established a sort of Tontine, by depositing money before leaving, which was to be returned two or three-fold to those who had the luck to

come back alive. The stay-at-home members, in accordance with the spirit of the age, probably lay in wait for the returning travellers and made money. Modern Travellers' Insurance Companies do not, however, compass the death of their policy-holders. They give them the option of "your money or your life," and—they take the money.

But this is a digression.

To-day we have in successful operation employers' liability companies and various companies which insure against defalcation and breach of trust, real-estate titles, plate-glass and boilers, live-stock, hail, investments, health and accidents. The insurance of impaired lives has also been practised to some extent, but with limited success.

But in each and all of the above absolutely nothing is looked for by the insured except reimbursement in a monetary way for loss. The company, as distinguished from the assured, must make money, but the money so made is only so much additional tax imposed on the assured, which he is compelled to submit to in order to obtain the benefits of the coöperative principle. A distinction must therefore be drawn between insurance conducted simply as a loss-distributing agency by and for the benefit of the contributors, and the business of insurance carried on at the expense of the contributors by others for their own profit. In the first case there is theoretically no profit; in the other there may or may not be, according to circumstances.

We have, therefore, to consider how the practical conduct of the insurance business can be made profitable, first, to those who conduct it, and, second, to their patrons. It must pay the first class, or no attempt would be made to carry it on. It must pay the second class, or any such attempt, in the long run, would be unsuccessful. Is it not possible to carry on the business of insurance, by and for the contributors, on the same lines as those on which the business is managed for a proprietary body, so that the contributors may realize a profit instead of a loss? Here is another paradox apparently greater than the first.

The manager of a proprietary company engaged in any other kind of business does not make money by simply putting away his talent in a napkin, or, in other words, relying alone on the process of accumulation at compound interest, which is the cardinal idea of improving funds for insurance purposes purely, but by

exercising the same scrutiny and sagacity in the profitable employment of those funds in other ways for the benefit of the proprietors, as if he were an individual banker or manufacturer. Apply the same principle to the management of insurance funds for periods of sufficient duration to bring the results under the uniform operation of the law of average and we have found the key to the combination.

Life insurance is the only branch in which the two essential conditions of the best paying insurance are united, viz., a perfect scientific basis in the laws of mortality and length of time in contracts to permit accumulations and the full fruit of wise investments.

It has been during the last twenty years that the individual has realized the possibility of making money by endowment policies or accumulative dividends through the application of the principle of compound interest. This may seem to be in a strict sense impossible, for the insurance company must be paid for the risk of death, and that must come out of the premiums in one way or another. Compound interest might not alone produce anticipated results. But the investment of premiums held to await the maturity of policies, by methods not contemplated under the early limitations assumed to be fundamental, may and often does supplement the process of accumulation at compound interest, and thus results in actually making money for the insured.

For instance : Large profits were made during our Civil War by sales of gold at high premiums. Much money has been made by rises in real property bought for improvement or taken in at judicial sales. Advance in the value of many securities held by insurance companies have greatly increased either their surplus or dividend-paying power. It is plain that if the money paid for premiums can be made more productive in the hands of the insurers than it would have been in the hands of the insured, the addition will go to pay the cost of the machinery and to reduce the cost of the insurance. It follows that if the addition can be made large enough the whole of the premium or its equivalent might be returned to the insured, at last, and the protection would cost him nothing. And this is not a hypothesis. It is a fact. The records of the progressive companies show many instances where this has been the case. It

will be objected that this is not insurance but banking or simple trading. Granted: but the banking and the trading are ancillary to the insurance, and they replace the waste of the one by the profit of the other. This is in precise analogy to, although undoubtedly an expansion of, the fundamental assumptions of the business. Insurance premiums are cast on a scale which shall leave substantial margins of surplus in addition to reserves required to guarantee fulfilment of obligations. Interest above the rate assumed in their calculation is always reckoned as one of the sources of surplus, and as such becomes an integral factor. Notably is it the case in various forms of accumulative policies. This is pure banking, and recent methods have merely brought the banking factor to greater fruition for the benefit of the insured. The insured are also, through the aggregation of small individual contributions, made partners, *pro rata,* of those who often control the world of finance and reap the profits which attend the sagacious employment of large capital at propitious junctures. The apostles of the *non possumus* propaganda denounce this as rank heresy; but it is the theory of management of the progressive American life-insurance offices of to-day, and has given, and promises to give, in the future, to the business of pure life insurance, itself but a distributor of loss, the capacity of actually making money for its patrons; and this, too, without the sacrifice of true conservatism. Probably no more careful and conservative set of men could be found in any centre of financial activity than are the managers of the investment function of life-insurance companies in general and of those popularly known as the "great" life-insurance companies in particular.

But the banking feature, however important it may be, is nevertheless only one of the many elements of successful life underwriting. Probably in no other business are so many educated intelligences brought into the service of the participants in its success. To the development of the American idea, from the formulas of the early managers and actuaries to the present combinations, which almost exhaust the capabilities of the interest and mortality tables, must be attributed in a greater measure than to the banking element the phenomenal growth of life insurance in this country; but still more is it due to the unflagging energy and prolific ingenuity of the men—executive officers and mathematicians of high scientific attainments working for a com-

mon end—who have infused into their business activities the enthusiasms of a new crusade for the elevation of an administrative experiment into a robust school of faith and practice. The enthusiasms of these have been passed on to and assimilated by hosts of bright-minded and aggressive agents to whom the blending of philanthropy with closely calculated monetary problems offers sympathetic attractions possessed by no mere project of profit without protection or of protection without profit. No other business enterprise commands the services of agents possessing, as a class, higher moral and intellectual qualities, and their devotion is secured as much by this appeal to their sympathies as to their pockets. The American people are not slow to recognize and to reward devotion and enterprise wherever they meet it, and especially among their own countrymen. They recognize with patriotic pride the achievements of American companies which, through American agencies, have pushed to primacy in every civilized country one of the exemplary institutions of their land, and they reward them by their generous patronage and support.

The whole difference between the time when our ancestors were engaged in the rudest industry, and barely obtained a precarious existence by constant exertion, to the present condition of comfort for every industrious person and of luxury and wealth for multitudes, does not lie in any change that has been made in natural resources, or in the forces at the service of man. The entire change has been brought about simply by the application of intelligence to these forces and resources. The soil and the forces are constant quantities. The progressive agent in the accumulation of wealth is merely brains. Like every other human activity, if insurance can be made to pay it must be by the application of ingenuity, of thought, of experience, of wisdom. Can these, in sufficient power, be brought into its service with such effect as to make it so useful that the risk may be carried and the surplus become a substantial contribution to the wealth of the insured? Experience has answered that they can, and the answer becomes more emphatic as the accumulation of wealth becomes greater.

But time is of the essence of the problem also. The tendency of capital, when it grows beyond a moderate amount, is to increase with great rapidity, and the longer the process is continued

the greater the rapidity of the increase. Stephen Girard said that all the difficulty of accumulating an enormous fortune lay in securing the first hundred thousand dollars; and there is no doubt that any man who succeeds, having started with his own hands, and brain, in collecting a moderate competence, will be able, by continuing the same kind of effort on the same principles, if only his life and energies remain to him, to multiply indefinitely what he has obtained. The longer the life and the effort, the greater the accumulation. When the life or the effort ceases the accumulation ceases also. One or two companies, however, are based on the principle of "pay as you go." They have eliminated the accumulative factor, and consequently receive a limited support, mainly from the less intelligent and the impecunious classes. Accumulation is held to be exclusively the business of the individual and not of the company. Carried to its logical conclusion this view of the functions of capital would have neutralized organized effort from the dawn of civilization.

Wise management freed from antiquated precedent and dead tradition; accumulation superimposed upon indemnity; legitimate methods of increasing accumulation systematically employed; adoption of long deferred periods of repayment or distribution; recognition of the fact that insurance must be conducted on a paying basis, just like any other business that succeeds; in fine, a continuously productive union of the capital of the intelligent policy-holder and the skilled labor of the experienced and successful life underwriter, supported by highly instructed and organized agency forces—these to-day are demonstrating the possibilities of insurance in ways till recently not fully understood, and it is to these that we must look for even greater developments in the future.

RICHARD A. MCCURDY.

MR. GREENE:

The possibilities of life insurance are embraced under two general heads: What especially can life insurance do; and for whom can it be done. But, in view of the multitude and peculiarity of the plans presented to the public, a third matter becomes of nearly equal practical importance, viz.: What life insurance cannot do.

Insurance is indemnity; it is replacing a value which has been

destroyed. A burnt house cannot be restored, but its value can be collected from other house-owners and paid to its owner who is thus indemnified ; the loss is absolute but it is distributed so that it does not fall on the original loser.

A life that is earning money for those dependent on it has as distinct a money value to them as a house or business block, or ship, or stock of goods has to its owner, which value those so dependent lose when that life ceases. But that lost value can be collected from others and paid to the dependents, so that it does not fall on them but on the contributors. That is indemnity for the loss of life : that is life insurance. Its usual machinery is by the collection of premiums beforehand, in anticipation of losses, and holding the premiums to be applied as the losses occur.

All the potencies, possibilities and limitations of life insurance are suggested in this definition. It can provide for every wife and child the indemnity, the money value, of the life of the husband and father ; for every estate, indemnity for the loss of the control of the owner ; for every creditor, indemnity for the loss of his debtor ; for every partner, indemnity for the loss of his co-partner ; for a corporation, indemnity for the loss of a specially valuable manager. In short, life insurance can legitimately provide indemnity to every person who is liable to lose money in losing a life on the continuance of which the receipt of the money depends. Scarce a family, scarce an estate, scarce a partnership, scarce a creditor, but stands more or less in danger of money loss by the loss of the productive life. Every such life is a proper subject for life insurance ; every dependent on the value of such a life, on its money-earning or producing or conserving power, is a proper beneficiary of life insurance in some degree.

The applicability of life insurance to the members of the community, either as insurers or beneficiaries, is almost universal. Nearly every one needs in some degree its protection ; on every one who has made others dependent on his life's product rests the duty of giving them its protection. Tens of millions in this country ought to be insured, because on them depend scores of millions whom they have made so dependent in some manner.

But life insurance must be paid for and it is the reverse of cheap, unless it is in a nearly worthless form. It is possible to those who can pay, and in the degree to which they can pay its cost.

This leads to an unfortunate limitation of its uses. Comparatively few can provide immediately all the indemnity their dependents need; more can provide a partial and, perhaps, very inadequate protection, and as we go down the scale of ability to pay premiums for thoroughly secure insurance, we find an increasing popularity for the makeshift schemes which seem to promise a great deal for a small present outlay in the more ambitious of the assessment or natural-premium companies, and for the industrials which collect premiums of a few cents a week for a small benefit, a necessarily expensive way, making the insurance as costly relatively as buying coal by the hod.

The death rate rises as men grow older, and the cost of their insurance, therefore, increases with age. But the "level premium" companies charge a premium which does not increase, but which after paying the smaller cost of the earlier years leaves a reserve for the greater cost of the later years. This gives an absolute stability and certainty to the operations of every well-managed company. Its policies will be paid in full no matter how small its membership may become.

Those who can pay the level-premium rate for all the insurance their dependents need get a secure indemnity at its lowest normal average cost, assuming that a proper company is selected. Those who cannot so take all the insurance needed, but do so take all they can pay for, get absolute security for that much and get it at the same rate of cost as the largest and wealthiest insurers. Their families will get what they pay for; they pay only its proper and necessary cost.

The assessment or natural-premium companies professedly charge each year only the assessments or premiums necessary to pay the actual death losses and expenses of that year, and nothing for a reserve against the increasing mortality as their policy-holders grow older. While such a company is comparatively young its assessments are comparatively small, and it appears to be giving insurance very cheaply; and this form of insurance is therefore attractive to those who either have little to buy insurance with, or who from ignorance suppose the favorable conditions are permanent. But the assessment company does not agree to pay an absolute sum, only what it can collect by way of assessments up to and not exceeding a certain sum. What may be realized on a policy depends wholly on the degree of success in collecting the

assessment made to meet it; that depends on the number who can be assessed and on their willingness to pay.

As the company and its members grow older, the death rate rises, the assessments increase in frequency and amount, the burden of carrying its uncertain promises grows, and after a few years grows very rapidly, until new blood can no longer be attracted to come in and pay the heavy losses of the old; and the best risks among the latter begin to drop out in increasing ratio, until those who have borne the burden longest and have perhaps become impaired risks, and unable to get insurance elsewhere, find themselves left with practically no one to be assessed when they die, and the whole thing collapses. This is the invariable lesson of their history. These companies not only lack cohesion, but the growth of the assessment or natural premium with increasing age is a positive, constant, and, at last, irresistible disruptive force, assisted in its effect by the growing uncertainty of the amount collectible by assessment. Their value to the community is therefore, on the whole, more than problematical. They offer a deceptive substitute and by present apparent cheapness induce people to forego an immediate beginning on the only substantial, satisfactory and finally cheapest form of real indemnity.

Those who can pay only very small sums, even by small weekly or monthly instalments, take policies in the industrial companies. The necessary cost of collecting such premiums makes this business useful only to those who cannot pay in larger sums and at consequently less average cost. But nowhere is the beneficence of protection more needed than among those who can buy it in no other way.

What life insurance cannot do, but what so many companies are trying to make it appear to do, is to furnish an "investment" to the insurer in any proper sense of the term. The suggestion of it came out of the fact that the level-premium companies carry a reserve which increases up to a certain point with the age of their business, but which will, when the companies reach an equilibrium in membership, finally come to an equilibrium itself; for it is held for and is applicable to the increasing mortality of age, and what is so expended on increased death losses of the older members is replaced by that being accumulated from the payments of the younger.

Life insurance cannot be stable and secure without this re-

serve ; therefore it must be provided. But it is provided at great cost as compared with money put into a true investment for income. One buys a bond or a mortgage without expense ; holds it, collects interest and finally principal, with little or no expense ; or puts money in the savings bank where the expense of a simple management is usually trifling as a percentage on the business.

But life insurance requires a great and expensive machinery. It must have its corps of agents, supply them with material and office room, and pay all the varied items of cost for soliciting business, for collecting premiums, for examiners, for advertising, and numerous other necessary incidentals.

The annual outlay for these things in the great companies which are now pushing "investment" plans under various names is at least 20 per cent. of their entire income, both premiums and interest. One dollar of every five received by them from every source goes to pay expenses. To pay money into so expensive a scheme and to call its normal accumulation thereunder an "investment" is obviously absurd. The companies so recognize it and propose to accomplish the "investment feature" by getting policy-holders to forego dividends for ten to twenty years in the hope that so many will die or lapse their policies meantime that their forfeited reserves and savings divided up among those who live and pay through will overcome the effect of extravagance on their particular policies and give them a good thing—not out of the investment capacity of the business as a whole—but out of those who have had to drop out by the way and leave all or part behind them.

In other words, the "investment feature" in life insurance is a pure gamble either in the cost or in the substance—or in both—of what can never be anything more than indemnity, and which can be made to simulate anything else only by making it less than indemnity. It is not one of the permanent possibilities of life insurance. It is possible only so long as the victims in moderate circumstances, who are depended on to furnish the bulk of the forfeitures for the wealthy players, do not know the game they are led to play.

JACOB L. GREENE.

MR. HOMANS :

It is a curious fact that the "doctrine of probabilities" or the scientific basis upon which all insurance rests, had its origin in a game of cards. That is to say, the foundation upon which this

great economy depends, and upon which it must base its claims to the confidence and patronage of the community, originated from investigations regarding games of chances. It happened in this way:

About the year 1650 the Chevalier de Mere, a Flemish nobleman, who was both a respectable mathematician and an ardent gamester, attempted to solve the problem of dividing equitably the stakes when a game of chance was interrupted. The problem was too difficult for him and he sought the aid of the famous Abbe Blaise Pascal, a Jesuit priest, author of "Night Thoughts," and one of the most accomplished mathematicians of any age. Pascal solved the problem and in doing so enunciated the "doctrine of probabilities," or laws governing so-called chances. Upon this depend not only the laws governing insurance of all kinds, but also the laws governing the motions of planets in space, and, in fact, all astronomical science.

This doctrine or theory Pascal illustrated by the throwing of dice. When a single die is thrown the chance of turning up an ace is precisely one out of six, or one out of the total number of sides or faces. But if a large number of throws are made, it will be found that each face will be turned up an equal number of times. From this Pascal laid down the proposition that results which have happened in any given number of observed cases will again happen under similar circumstances, provided the numbers be sufficient for the proper working of the law of average. Thus the duration of the life of a single individual is one of the greatest uncertainties, but the duration, or rate of mortality, of a large number of individuals may be predicted with great accuracy by comparison with the observed results among a sufficiently large number of persons of similar ages, occupations and climatic influences.

In fact all happenings may be said to result from the operation of laws, which laws may be ascertained by observation—and there is no such thing as chance. The number of buildings which will be destroyed by fire in a given time—the number of vessels which will be lost by shipwreck, the number of deaths which will occur,—not only from all causes, but from each particular cause, as suicide for instance—may be confidently predicted if only we know how many instances of each have happened in the past among a sufficiently large number of similar cases.

Hence fire, marine and life insurance are made possible, and commercially safe.

The theories of Pascal were not made practically available by him. The Grand Pensioner DeWitt, of Holland, was the first to reduce these theories to practice, which he did in 1693, by calculating the true values of annuities, based upon observed rates of mortality. Dr. Halley, Astronomer Royal of Great Britain, was the first to discover and arrange what are called life tables from which all monetary values depending upon the chances of living and dying, combined with the improvement of money by interest, may be computed. He may justly be called the father of the modern system of life insurance.

Fire and marine insurance have a much earlier origin than life insurance, but their practices were crude and haphazard until a comparatively recent period. The practice and theory of each of these three principal branches of insurance have been steadily improving until now these great economies rest on solid scientific bases. Their operations affect all classes of society, and have become a necessity of modern civilization. Insurance of any kind is at once an attribute and an evidence of civilization. It could not exist among savages, for the simple reason that there can be no adequate coöperation among them.

Insurance may be defined as a device, or measure, by which loss or damage from the happening of any named contingency may be borne or shared by the many, instead of falling upon one individual alone. With this broad definition it will readily be seen that its possible applications are numerous. Knowing by observation the number of happenings in a large class of cases within a given time, we may predict with confidence the number which will happen in future among similar cases, provided the numbers are sufficient for the workings of the law of average. This knowledge enables us to calculate the monetary values of chances, or in other words to determine the premium necessary to be charged for insurance against any named contingency.

While fire, marine and life insurance are the principal branches, and as such are well known among all classes of the community, there are others of comparatively recent origin and less widely known which have already assumed large proportions. Among these are: (1.) Accident insurance; (2.) Plate glass insurance; (3.) Steam boiler insurance; (4.) Guaranty insurance,

by which the fidelity of employees or servants is insured, also whereby corporate bonds are furnished in place of individual bondsmen; (5.) Mortgage and title insurance; (6.) Hailstone insurance; (7.) Insurance of horses, cattle, etc.

All these branches of insurance are in successful operation in the United States and in Europe. Their objects are definite and legitimate, and they afford opportunities of spreading losses which would be crushing to individuals among large numbers of persons upon whom the loss to each one falls lightly.

There are many other branches of insurance which have been projected, and in some cases actually started, some of which may prove to be a benefit to the community, while in other cases they are of doubtful utility. Among these may be mentioned: (1.) Credit insurance, by which individual losses in mercantile transactions may be borne by the many; (2.) Insurance against highwaymen and robbery; (3.) Insurance of marriage portions for daughters, which, in the British East India service, has been an important and successful branch of insurance; (4.) Insurance against issue and survivorship—a branch of business which is quite important in Great Britain, where the law of entail exists, but it is not practised in the United States; (5.) Insurance against divorces; (6.) Insurance against destruction by moths; (7.) Insurance against celibacy; (8.) Against death or injury by "tiles that may drop on a passer's head," is the title of an insurance company lately formed in Switzerland.

As a general rule insurance is carried on by incorporated companies deriving charters from the State, and subject more or less to governmental supervision. In some cases, notably "Lloyds" of London, and several marine and fire companies in the United States, insurance is carried on by associations of individuals, or partnerships, each partner assuming a definite portion of each risk.

The system of government supervision or control varies in different countries. In Great Britain and continental countries in Europe, companies are required to report general facts only regarding income, disbursements, assets, insurances in force, and liabilities estimated by themselves. In the United States where every State is a sovereign, there are forty-four different Insurance Departments. Each State may impose such conditions, restrictions and taxes upon corporations of all other States seek-

ing to transact business within its sacred territory, as its legislators may deem proper. As a result, the laws, taxes and requirements vary greatly, and impose serious burdens and expenses upon companies, which, of course, are borne by their policyholders. On the other hand, each company is obliged to answer in minute detail questions regarding its business, so that its condition may be made clear to the general public as well as to persons directly interested.

The American system then is one of paternalism, while the British system is one based upon freedom and publicity. Paternal supervision involves, logically, paternal responsibility. State control means State guaranty. Persons who insure in reliance upon governmental certificate of solvency, would, in justice, have a claim for compensation should that certificate be misplaced. But such claim could scarcely be enforced in the United States.

On the other hand the British system of freedom and publicity enables unsound or swindling companies to prey upon the general public, which has no means of acquiring exact information regarding the condition of an institution other than the reports and statements of its officials.

Probably the best system would be a happy mean between the two, where the supervision of the State would combine the maximum of freedom and publicity with the minimum of interference necessary to the ascertainment of solvency and honesty of management.

SHEPPARD HOMANS.

MR. KELSEY:

TITLE insurance as a field for corporate enterprise originated in Philadelphia in 1876. The Real Estate Title Insurance and Trust Company of that city has the credit of first applying the insurance principle to a field very different from life, fire, marine or accident insurance. In all of these latter classes of insurance the losses are the principal drain on the premium account.

Title insurance entered a field where the losses were comparatively small, but where the expenses were burdensome in the extreme, and the conduct of the business was accompanied by interminable annoyances and delays. Titles to real estate had been handled for generations on the strength of opinions of counsel; and, as it did not seem very business-like for a pur-

chaser to rely upon the opinion of the seller's counsel, he felt compelled to hire his own to repeat the work, at great expense, although experience showed that the losses escaped by so doing were trifling in comparison.

It occurred to the shrewd Philadelphians, that all that was needed to destroy the reason for the old system was, to get for a single fee, paid once and not annually, a single opinion of counsel upon which an endless row of successive owners could rely with equal safety. To get such an opinion, they reasoned, it was only necessary to place the attorney where he acted for a corporation which would pledge its capital to make good, to any one of the successive owners, any loss from mistake in that opinion, and which could profit nothing by passing a bad title along. From so simple a device, has the title insurance business sprung. The cash losses from bad titles had been very small. Hundreds of lawyers had been examining them in every large city, and going over one another's work as if it had never been done before, to the great waste of the time, money and patience of their clients.

Title insurance does not take known hazards any more than a fire company insures burning buildings. It picks out the good titles, and puts its seal upon them so that they pass current. The risk is infinitesimal as compared with that in fire insurance, where chance has much to do with it, or in life insurance, where death is certain to come. The relations of the loss account to the expense account are, therefore, exactly reversed as between the two classes. In title insurance the expenses are heavy because the work is of a professional and scientific character and must necessarily be practically commensurate with the business done. The losses, however, are insignificant.

The simplicity and soundness of the principle are such that the public has taken hold of it with apparent wonder that it was not applied before. After the establishment of the Philadelphia company, others were soon organized in New York, Boston, Baltimore, Washington, Chicago, Newark, Jersey City, St. Paul, Minneapolis, and, practically without exception, in every city of any considerable size in the United States. The business is now rapidly drifting into the hands of these companies. That it does not at once go over bodily to them is due to the fact that the habit of generations has to be overcome, and that the land-owner is very apt to go for advice, as to whether he should change his

habit, to the very attorney who is most interested in not having him do so.

Another influence contributing to the growth of the system, aside from the greater safety afforded by it and the far greater economy of it, has been the quic..ness with which a transfer or mortgage can be put through by its aid. To attain this celerity and at the same time to iucrease their safety, the title insurance companies at once found it necessary to make their own copies of the real-estate records of the counties in which they proposed to operate. In a large city, this means a stupendous undertaking. It involves the copying of every description of every piece of land described in every instrument affecting land, recorded in the Register's or County Clerk's office, from the earliest record down to the latest. In New York County, for instance, the number of such descriptions to date is about 3,000,000. These are copied and sorted, not according to the names of the parties to them, as all such records are kept in New York State, but according to the properties affected. A ledger account is opened with each separate lot of land, in which account is entered of every instrument affecting it. This assortment is made, mechanically, with a system of checks and counterchecks as efficient as a trial balance in bookkeeping. Thus the record of the piece of land is arrived at with absolute certainty, a thing that is never true of any index according to names. The record is kept up from day to day by copying every instrument recorded the day before, and posting the results to the proper accounts.

Although the cost of such a plant is enormous, it at once justifies its compilation by the extraordinary facility which it gives to the company in making its legal examinations of titles. Instead of the old and laborious practice of digging out the title and making an expensive and slow search through the indexes, a part of the job which consumed much of the time before required, the ledger account with the lot, which is practically the complete abstract of its title, is at once placed in the law department's hands and every instrument passed upon by a skilled real-estate lawyer, and the legal sufficiency or insufficiency of the title demonstrated. If the title is found perfect, the policy of guarantee is issued and the history of that title, in the plant, marked sound and it never has to be investigated again. If the title be found defective, an entry to that effect is made on its record, and

the company warned off from it, until something new cures the defect. As the business of the company increases in volume, it gradually transforms its plant from a collection of unexamined abstracts into a collection of examined and approved ones. The history of the lot at the southwest corner of Eighteenth Street and Fourth Avenue may be the same as that of the lot at the northwest corner of Seventeenth Street and Fourth Avenue, down to 1870. If the latter has been once examined and approved, the former, if submitted for guarantee, will require an examination back only to the work marked examined and approved in the other case. What, therefore, in the first case may have taken six days as against thirty under the old system, may, in the second case, take only two days as against thirty under the old system.

As the work of the company gradually covers the city, it meets, more and more, the routes previously travelled in great part, and saves more and more in the average time required to put through each new transaction. Of course any piece once insured can be transferred very simply and very quickly, and the policy re-issued to the new purchaser.

The importance of such an accumulation of information affecting the most stable part of the community's wealth, arranged so as to be at once available, is very apparent. If a railroad company wishes to get the names of every lot owner throughout the length of an avenue, for procuring consents, this locality plant can at once produce them. If the Comptroller or the District Attorney wishes to know whether a proposed bondsman owns the property claimed, the same machine can at once give the answer and tell what the mortgages upon it are. If the health authorities wish to know the name of the owner of a piece of property where a nuisance is maintained, or the police department that of the owner of a disreputable house, the locality index furnishes the information. If an intending purchaser or lender wishes, before deciding to buy or lend, to know the past history of a property—through what hands it has been, what it seems to have sold for, or what loans may have been made on it previously, or, perhaps, at what amount adjoining pieces have been sold or mortgaged—he can at once be fully posted by a reference to this invaluable index, and saved from a bad bargain or helped to a good one.

But it is not in these incidental conveniences that the title-insurance system, with its locality index, is exerting the most powerful influence for the permanent advantage of the real-estate interests. It is in the general and quick convertibility that it is rapidly giving to real estate as property. Real-estate has always been the most steady and certain investment to be had, but it has been shunned by many because they were so hampered in dealing with it. Banks have disapproved it as collateral and National banks have been forbidden by statute to accept it, and all because the question of title was never settled, and tedious delays and great expenses were involved in every consideration of it. By simply settling the question of title once for all, and having the title-insurance corporation put its stamp upon it, the one controlling obstacle to the availability of real estate as ready capital, has now been removed.

Every year is seeing a wide extension of its use where availability is important. Mortgages with title insured are being generally accepted as collateral, excepting by the National banks, where the statute forbidding it still remains in force, though the reason for it no longer exists. Trust mortgages on real-estate securing $1,000 bonds, in negotiable shape, are now common and are accepted, because, by the insurance of the title certified on every bond, the old question is set at rest. The facility that attaches to a railroad investment is thus secured for the safer and more stable real-estate investment. Even yet, this country is far behind some of the countries of Continental Europe in the use which it makes of its land as capital.

It cannot be that the United States will permit France and Germany and Austria to be more progressive than itself in making available in financial affairs the safest and surest possession—the land which is the basis of all values. It is of the highest importance to the healthy growth of this country that capital should be attracted into real-estate channels; that it should be easy to get it in and easy to get it out; that it should be easy to lend money on mortgage and easy to use the mortgage after it is taken. While our State legislators are looking around for new schemes to increase taxation, they should consider whether, instead of taxing mortgage investments still more stringently, they should not abolish the tax on mortgages altogether. No single measure could have more sweeping effect in turning capital from

speculative channels into the building up of our towns and cities. It would enormously increase their taxable property and bring far greater ultimate and permanent success to our tax-hunting legislators.

The unpleasant experience of the public with railroad and kindred investments, where the insider knows everything and the outsider knows nothing, has turned the attention of the cautious to landed securities which they can see, and which cannot be manipulated so that a common person cannot tell whether they are worth anything or not. It is the part of wisdom in the bankers, the legislators, the conservatives of every class, to encourage this tendency; and in accomplishing the results desired, the title insurance companies are having, and will continue to have, no small part.

CLARENCE H. KELSEY.